



Actuarial & Employer Services Branch
P.O. Box 942709
Sacramento, CA 94229-2709
Telecommunications Device for the Deaf - (916) 326-3240
FAX (916) 326-3005

April 22, 2008

AGENDA ITEM 4

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Continue Contracts for Actuarial Pool and Issue RFP for Actuarial Auditing

II. PROGRAM: Actuarial & Employer Services Branch

III. RECOMMENDATION:

It is recommended that the Committee direct the Actuarial and Employer Services Branch (AESB) to extend the existing Actuarial Consulting Pool contracts for an additional five (5) years, and to issue a Request for Proposal for an Actuarial Auditing contract with a term of five (5) years.

IV. ANALYSIS:

Background - Actuarial Pool

On March 31, 1997, CalPERS issued a Request for Proposal (RFP) No. 97-187, to establish a pre-qualified pool of consultants to provide professional actuarial services for a period of up to three (3) years, in accordance with Board Resolution 92-04B-3 that pertains to competitive bidding. An advertisement was placed in the California State Contracts Register, and RFPs were sent to approximately 166 actuarial and consulting firms worldwide. Proposals were received from seven firms for the Actuarial Consulting Pool. One firm later withdrew, leaving six proposals for consideration.

Benefits and Program Administration Committee
April 22, 2008

Following evaluation and scoring of the six firms by the RFP evaluation committee in accordance with the RFP criteria, the firms were interviewed by the CalPERS Board of Administration on October 9, 1997. The interview provided further clarification and consideration in the technical evaluation categories. The interview focused on qualifications of the Principal Actuary and Support Actuary, communication skills, demonstrated knowledge of the assignment, overall knowledge of public retirement systems, and any material information or material changes that were not reflected in the Evaluation Committee's review of the technical proposal. Following the interviews, the Board ranked the finalists by motion and vote of the majority.

A "pool" of five actuarial firms was established to provide actuarial services to CalPERS on an as-needed basis (contract #'s 97-331, 97-332, 97-334, 97-335). The pool allows CalPERS to receive competitive proposals from a minimum of three firms for each actuarial service requested during the contract period. The five firms included in the pool were: Buck Consulting, Ed Friend, Inc., Gabriel Roeder and Smith, Milliman and Robertson, and Watson Wyatt.

On April 16, 2003, the Board approved a request to extend the actuarial pool contracts for an additional five (5) years. These contracts now expire on October 31, 2008.

The pool was established for the following reasons:

- 1) The work required under the contract must be performed by an actuarial firm with specialized experience in public pensions. An in-depth evaluation was necessary to determine whether the responding consultants had the required experience needed by CalPERS. This experience could not be standardized. The approach of each competitor depended upon the experience and qualifications of the firm.
- 2) The required experience, qualifications and approach to the work was compared with the other proposals in order to determine the firm with the capability to achieve the desired results within the required timeframes, and at the least total cost to CalPERS. A satisfactory outcome to the contract is substantially dependent on the ability of the selected contractor.

When soliciting services from the firms in the pool, CalPERS utilizes a Request for Service form that clearly describes the service to be provided. The bids are evaluated based on the methodologies, implementation strategies, staff assigned to the project, previous experience specifically related to the requested service, amount bid, and, when appropriate, successful implementation of similarly provided services. A Letter of Engagement is then entered into with the selected firm. Over

Benefits and Program Administration Committee
April 22, 2008

the past six years Letters of Engagement have been entered into with Ed Friend, Inc., Milliman & Robertson, Gabriel, Roeder, & Smith, and Buck Consultants for a variety of actuarial consulting services.

In Fiscal Years 2000/2001 and 2001/2002 the Board approved 23 new positions in the actuarial function of AESB. The increase in staff has reduced the amount of work offered to the pool contractors.

Recognizing that the amount of work offered to the pool contractors will continue to shrink with further staff development, AESB is requesting the Board's approval to extend the existing pool of four qualified actuarial consultants for an additional five (5) years. The alternative would be to issue a new RFP and establish a new pool of contractors. The risk with issuing a new RFP is that some of the existing qualified firms would not submit a proposal because they know the potential work is minimal. Extending the existing contracts allows us to retain four qualified contractors while continuing to use the competitive Request for Services process.

Background - Auditing Contract

Request for Proposal No. 2003-2964 for professional actuarial auditing services was issued on March 31, 1997, in accordance with Board Resolution 92-04B-3 that pertains to competitive bidding. An advertisement was placed in the California State Contracts Register, and RFPs were sent to approximately 166 actuarial and consulting firms worldwide. The three (3) year contract was awarded to Ed Friend, Inc. on December 1, 2003 expiring on September 30, 2008.

While regulations do not require that the actuarial auditing services contract be awarded to a different auditor every cycle as does the CalPERS' financial auditing services contract, the Actuarial and Employer Services Branch is recommending the Board direct the issuance of an RFP for a new contract. Ed Friend, Inc. would be eligible to submit a proposal. In order to prevent public access to a RFP prior to its formal release date, Operations Support Services Division, Contracts Management Section has recommended that the RFP not be included with this agenda item. A copy of the RFP is available for your review upon request.

The RFP "secondary method" would again be used. Under the secondary method, contracts would be awarded to the highest scoring bidders. The scoring criteria are listed in the RFP and are similar to that used in the previous auditing RFP.

A staff evaluation committee, selected by the Chief Actuary, will evaluate the proposals submitted. The evaluation results will be provided to the Board on June 2009. At that time the Board would select the Finalists to be interviewed in August 2009.

Key Points of Actuarial Auditing RFP

- Valuations for the respective groups (e.g., Public Agencies, State and Schools, Legislators' Retirement System, Judges' Retirement System, and 1959 Survivor Benefit Program) would be audited on a triennial basis.
- Each task would have a fixed price, including potential reconciliation costs, which is guaranteed for the five-year contract period. As indicated above, Tasks 1 through 6 are the triennial audits for the respective groups, and Task 7 is a final actuarial audit report due at the conclusion of the contract.

Tasks

Task 1:

Parallel valuation and certification of the 2008 annual valuations of contracting public agency pension plans.

Upon the completion of the June 30, 2008 public agency valuations by CalPERS staff, approximately in November 2009, the contractor shall perform a parallel valuation and certification of those valuations including the required GASB 25 and 27 disclosure information. This will include a review of those assumptions, methods, and procedures which are relevant and necessary in accordance with generally accepted actuarial standards and certification of the contribution rates and accrued liabilities. At a minimum, the Contractor will perform a parallel valuation of the ten largest public agency plans plus a minimum of ten other public agency plans chosen by an acceptable random sample technique.

Task 2:

Parallel valuation and certification of the 2009 annual valuations of the state and schools pension plans.

Upon the completion of the June 30, 2009 state and schools annual valuations by CalPERS staff, approximately in May 2010, the Contractor shall perform a parallel valuation and certification of those valuations including the required GASB 25 and 27 disclosure information. This will include a review of those assumptions, methods and procedures which are relevant and necessary in accordance with generally accepted actuarial standards and certification of the contribution rates and accrued

Benefits and Program Administration Committee
April 22, 2008

liabilities.

Certification shall include independent validation of state miscellaneous first and second tiers, state safety, state industrial, peace officer and fire fighters, California Highway Patrol and schools.

Task 3:

Parallel valuation and certification of the 2010 annual valuations of the Judges' I and II Retirement Systems (JRS I and II), the Legislators' Retirement System (LRS), and the 1959 Survivor Benefit Program (59 SBP).

Upon the completion of the June 30, 2010 actuarial valuations of JRS I and II, LRS, and 59 SBP by CalPERS staff, approximately in May 2011, the Contractor shall perform a parallel valuation and certification of those valuations including the required GASB 25 and 27 disclosure information. This will include a review of those assumptions, methods and procedures which are relevant and necessary in accordance with generally accepted actuarial standards and certification of the contribution rate and accrued liabilities.

Task 4:

Parallel valuation and certification of the 2011 annual valuations of contracting public agency pension plans.

Upon the completion of the June 30, 2011 public agency valuations by CalPERS staff, approximately in November 2012, the Contractor shall perform a parallel valuation and certification of those valuations including the required GASB 25 and 27 disclosure information. This will include a review of those assumptions, methods, and procedures which are relevant and necessary in accordance with generally accepted actuarial standards and certification of the contribution rates and accrued liabilities. At a minimum, the Contractor will perform a parallel valuation of the ten largest public agency plans plus a minimum of ten other public agency plans chosen by an acceptable random sample technique. The

Task 5:

Parallel valuation and certification of the 2012 annual valuations of the state and

schools pension plans.

Upon the completion of the June 30, 2012, state and school annual valuations by CalPERS staff, approximately in May 2013, the Contractor shall perform a parallel valuation and certification of those valuations including the required GASB 25 and 27 disclosure information. This will include a review of those assumptions, methods and procedures which are relevant and necessary in accordance with generally accepted actuarial standards and certification of the contribution rates and accrued liabilities.

Certification shall include independent validation of the plans for state miscellaneous, first and second tiers, state safety, state industrial, peace officer and fire fighters, California Highway Patrol and schools.

Task 6:

Parallel valuation and certification of the 2013 annual valuations of the Judges' I and II Retirement Systems (JRS I and II), the Legislators' Retirement System (LRS), and the 1959 Survivor Benefit Program (59 SBP).

Upon the completion of the June 30, 2013 actuarial valuations of JRS I and II, LRS, and (59 SBP) by CalPERS staff, approximately in May 2014, the Contractor shall perform a parallel valuation and certification of those valuations including the required GASB 25 and 27 disclosure information. This will include a review of those assumptions, methods and procedures which are relevant and necessary in accordance with generally accepted actuarial standards and certification of the contribution rate and accrued liabilities.

Task 7:

Final Actuarial Audit Report

Contractor will prepare a Final Actuarial Audit Report for the contract period. The report shall contain at a minimum: a recap of issues found during each actuarial review, how issues were resolved, and what issues remain outstanding. This report also provides the Contractor an opportunity to comment on the overall status of the actuarial process at CalPERS for items such as funding status, actuarial assumptions and member data. The Contractor shall present the report to the Committee and Board the same or following month after the final actuarial audit report is due.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Branch.

VI. RESULTS/COSTS:

Actual costs will be determined by fee proposals for each service.

David Clement
Senior Pension Actuary

David Lamoureux
Supervising Pension Actuary

Ron Seeling, Chief Actuary
Actuarial & Employer Services Branch